

TO: THE CHIEF EXECUTIVE OR MANAGING OFFICER OF ALL LOUISIANA STATE-CHARTERED BANKS AND THRIFTS

FROM: SID SEYMOUR, CHIEF EXAMINER

DATE: JANUARY 4, 2010

RE: LOUISIANA OFFICE OF FINANCIAL INSTITUTIONS (OFI) UPDATE

THE SECURE AND FAIR ENFORCEMENT FOR MORTGAGE LICENSING ACT (SAFE ACT)

On 11-13-09, the FDIC issued a Financial Institution Letter, FIL-64-2009, regarding their final rule on the SAFE Act. The FIL provides some highlights of the rule as well as a copy of the draft final rule in its present form. As the FIL notes, the rule will not be published in the Federal Register until the other agencies involved in this rulemaking complete their review and approval. The participating agencies have not finalized their rules, and the system that will be used for registration is not available to depository institutions at this time. The agencies will provide a public notice when registration is required, which will give the individuals 180 days to register. The agencies include the FDIC, FRS, OTS, NCUA, OCC, and FCA. A draft of the rule is available at <http://www.fdic.gov/news/board/2009nov12no8.pdf>. Please be advised that your institution and its employees **are not required** to do anything at this time. You may contact Review Examiner Tim Robichaux at 225/922-0878 or trobichaux@ofi.louisiana.gov with any questions.

DIVIDENDS

LSA-R.S.- 6:263 restricts a bank's ability to pay dividends in any one year that exceed current year "net profits" combined with the "net profits" from the immediately preceding year. "Net profits" is defined as net income less any cash dividends. In addition, formal and informal enforcement actions routinely contain a provision requiring prior regulatory approval of any dividends. The issue of dividends to the parent company for debt service (where the subsidiary institution is currently unprofitable) has come up several times recently. The directorate of the subsidiary institution should be aware that the probability of dividends being approved is remote until the subsidiary institution returns to profitability and is deemed "well capitalized" under current regulatory standards. Therefore, it is incumbent on the directorate to consider the parent company's future debt servicing needs and develop a contingency plan in the event dividends are no longer available from the subsidiary institution. Contingency plans should be formalized and reviewed annually. You may contact me directly at 225-925-4675, or email sseymour@ofi.louisiana.gov if you have any questions in this regard.

LA AG'S OFFICE ISSUES OPINION THAT ELECTRONIC TITLING IS MANDATORY

Please refer to this website [http://stage.redstick.com/content_lba/newsletter.cfm?mode=more&form=530] for a "must read" article that appeared in the 12-18-09, Edition of "The Louisiana Banker" written by General Counsel David Boneno. In the article, Mr. Boneno discusses legislative changes that go into effect on 1-1-10, regarding LSA-R.S. 32:707.2. Since this statute was amended during the 2008 Regular Legislative Session, there has been some question as to whether the Office of Motors Vehicles (OMV) was mandated to comply with the electronic media system for lien recordation and title information, or whether it was voluntary. On 11-25-09, the Louisiana Attorney General's Office issued an opinion that the amendment makes implementation mandatory and use of the system is mandatory for all lenders. We understand that until the issuance of this opinion, the OMV had taken that the law was voluntary – not mandatory.

In order to disseminate information in this regard, the LBA has scheduled a teleconference on 1-6-10, at 3:30PM for bankers to speak with Dan Casey of Auto Title Express/Casey & Casey NPS, Inc., an LBA Associate Member. The purpose of the conference call is to discuss the requirements of the new law, go over examples of how the procedures will work, and answer questions. For more information on the teleconference, go to this link--<http://www.lba.org/edueventdetail.cfm?EID=4112>.

Recently, the OMV posted a notice on its website: www.expresslane.org/vr/PTA_ELT.asp regarding this matter along with a listing of public tag agents who are capable of filing electronically. Although the OMV does not have the authority to delay implementation, it will continue issuing paper titles until 6-30-10. If you have any questions, please contact me directly at 225-925-4675, or email sseymour@ofi.louisiana.gov.

Concentrations in Commercial Real Estate (CRE) Lending – Since we continue to have a number of state-chartered financial institutions with significant levels of CRE concentration risk, you are again reminded of the importance of correctly programming your management information system (MIS) in order to properly identify owner-occupied versus non-owner-occupied CRE for Call Report purposes. Institutions are expected to perform their own assessment of CRE concentration risk in their lending portfolios. If you exceed the established CRE concentration thresholds, you are expected to have more sophisticated risk management practices, procedures, and processes in place in order to properly monitor such risk on an ongoing basis. Examiners will continue to review institutions' CRE concentration risk at future examinations and through the off-site monitoring process. Recently, the FDIC and other federal banking regulatory agencies issued a policy statement on Prudent Commercial Real Estate Loan Workouts which may be found at <http://www.fdic.gov/news/news/financial/2009/fil09061.html> and replaces their Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loan dated November 1991 and June 1993. In addition, they held an interagency telephone seminar on this statement. If you were unable to participate in the telephone seminar, you may listen to the audio or read the transcript of the seminar at <http://www.fdic.gov/news/news/financial/2009/fil09068.html>. If you have any questions, please contact me directly at 225-925-4675, or email sseymour@ofi.louisiana.gov.

FINANCIAL PERFORMANCE

Overall Financial Condition - As of 9-30-09, there were 158 banks and thrifts domiciled in the State of Louisiana, with 128 or approximately 81 percent being state-chartered. Our latest Economic Update has been posted to our website, www.ofi.louisiana.gov, and may be accessed by either clicking the bank or thrift links, and the OFI Financial Reports - 6-30-09. Louisiana-domiciled banks and thrifts continue to perform very well compared to banks and thrifts nationally. The information reflected below is updated through **9-30-09**.

For Louisiana-domiciled banks and thrifts, the third quarter of 2009 saw a significant increase in net income from the prior quarter, despite a continued increase in loan loss provisions, because of an increase in non-interest income and a decline in non-interest expense. Net income through the first nine months of 2009 declined by approximately \$121 million over the same time period in 2008, primarily because of increased loan loss provisions. As of 9-30-09, the return on average assets for Louisiana-domiciled banks and thrifts was well above the national average, with the gap between the two widening slightly during the third quarter. As of this same date nationally, Louisiana-domiciled banks and thrifts reflected the seventh lowest percentage of unprofitable institutions - 10.13 percent for Louisiana compared to 28.31% on a nationwide basis.

Asset quality reflected some further slippage, with non-current loans and nonperforming assets both increasing from the previous year. The ratios to total loans and total assets remain below the national average, with the gap in these ratios widening over a year's time. Net charge-offs also increased from the previous year in both dollar amount and as a percent of total loans. As with nonperforming assets, the net charge-off ratio remains well below the national average with the gap also widening. For Louisiana-domiciled institutions, all three capital ratios increased modestly and remained above national averages, which saw increases in all ratios at a higher

rate in the same time period. Although it decreased in a year's time as deposits increased at a faster rate than net loans, the ratio of net loans to deposits for Louisiana-domiciled institutions exceeded the national average, which declined because of an increase in deposits and a decline in loans.

Banks - For Louisiana-domiciled banks, there was a moderate increase in total assets, total deposits, and Tier 1 (core) capital in a year's time. Core deposits, as a percent of total deposits and borrowed money, reflected a modest increase in a year as core and total deposits increased while borrowed money declined. Although net income decreased from the previous year primarily because of an increase in loan loss provisions, earnings remained well above the national average although the gap has lessened in a year's time. All three capital ratios increased in a year's time and remained above national average, although the gap between the two has decreased. Capital ratios for the majority of Louisiana-domiciled banks remain well above regulatory minimums and national averages. In a year's time, non-current loans and nonperforming assets both increased, causing the ratios to total loans and total assets, respectively, to also increase. Both of these ratios are now below the national average as the nonperforming asset ratio was slightly above the national average at 9-30-08. Net charge-offs also increased significantly in year's time; however, the ratio remains well below the national average. The ratio of net loans to deposits declined over a year's time as deposits grew faster than net loans and is above the national average, which has declined with growth in deposits and a decline in net loans.

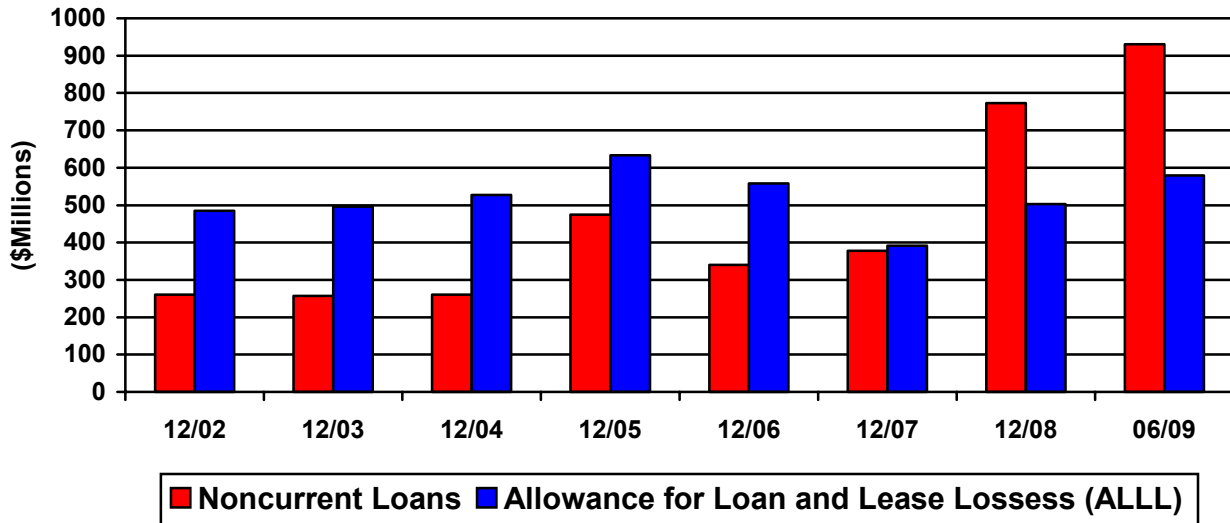
Thrifts - For Louisiana-domiciled thrifts, there was a modest increase in total assets, total deposits, and Tier 1 (core) capital over a year's time. Core deposits, as a percent of total deposits and borrowed money, increased minimally as core and total deposits increased and borrowed money declined. Net income increased substantially from the prior year, primarily because of a significant reduction in interest expense. As a result of this increase, the average ROAA improved in a year and compared favorably to the national average, which was positive as compared to negative for the same time period last year. All three capital ratios increased and remained well above regulatory minimums and national averages. While non-current loans and nonperforming assets have increased substantially in a year's time, the ratios to total loans and total assets, respectively, still remain at manageable levels and well below national averages. Net charge-offs also reflect a significant increase over the prior year; however, the ratio of net charge-offs to total loans remains acceptable and does not raise significant regulatory concerns. For Louisiana-domiciled thrifts, the ratio of net loans to deposits has declined over a year's time as total deposits have increased faster than net loans, and the ratio remains below the national average, which also declined as net loans decreased faster than deposits.

The following **graph** illustrates the level of the ALLL for Louisiana-domiciled banks compared to the level of non-current loans (loans 90 days or more past due and still accruing interest or on non-accrual) from year-end 2002 through June 30, 2009. From year-end 2002 through year-end 2007, the level maintained in the ALLL exceeded the level of non-current loans; however, in the six quarters since, the level of non-current loans exceeded the level of the ALLL. For all banks and thrifts in the U. S., the level maintained in the ALLL has exceeded the level of non-current loans for each quarter from year-end 2002 through the third quarter of 2007 while the level of non-current loans exceeded the level of non-current loans for the last seven quarters.

The accompanying **chart** illustrates the level of non-current loans for state-chartered banks in Louisiana, all Louisiana-domiciled banks, and all banks nationwide from year-end 1992 through September 30, 2009. While the ratio for Louisiana-domiciled banks has been trending up since the end of 2006, it remains substantially below the national average. This is attributable to continued loan growth in Louisiana over this time period while loans have shrunk nationally.

NONCURRENT LOANS AND THE ALLL

Louisiana-Domiciled Banks & Thrifts



Non-Current Loan Ratio

Date	State-Chartered	All LA-Domiciled	Nationwide	Diff (LA vs NW)
9/30/2009	2.15%	2.87%	5.00%	-2.13%
6/30/2009	1.81%	2.64%	4.36%	-1.72%
3/31/2009	1.85%	2.57%	3.71%	-1.14%
12/31/2008	1.74%	2.23%	2.91%	-0.68%
12/31/2007	1.07%	1.20%	1.33%	-0.13%
12/31/2006	0.93%	0.76%	0.80%	-0.04%
12/31/2005	1.47%	1.08%	0.75%	0.33%
12/31/2004	0.95%	0.65%	0.86%	-0.21%
12/31/2003	1.09%	0.74%	1.20%	-0.46%
12/31/2002	1.12%	0.83%	1.46%	-0.63%
12/31/2001	1.18%	0.89%	1.14%	-0.25%
12/31/2000	1.13%	0.92%	1.13%	-0.21%
12/31/1999	1.05%	0.89%	0.95%	-0.06%
12/31/1998	1.24%	0.93%	0.97%	-0.04%
12/31/1997	1.23%	0.87%	0.96%	-0.09%
12/31/1996	1.32%	0.99%	1.04%	-0.05%
12/31/1995	1.12%	0.99%	1.17%	-0.18%
12/31/1994	1.04%	0.95%	1.30%	-0.35%
12/31/1993	1.40%	1.71%	1.99%	-0.28%
12/31/1992	1.70%	2.92%	3.06%	-0.14%

Ratio shown is the weighted average ratio from the Statistics on Depository section of the FDIC website, based on the Standard Peer Group of All Commercial Banks, grouped by State-Chartered, Louisiana-

CAMELS Ratings for ALL Banks and Thrifts Domiciled in Louisiana - A great majority of Louisiana-domiciled banks and thrifts remain in sound financial condition. As of 9-30-09, approximately 90% of all Louisiana-domiciled banks and thrifts had composite ratings of 1 or 2.

Recent Examination Topics of Interest – Changes and/or upgrades to the Call Report have been numerous over the past year due to significant changes in accounting and reporting requirements. As a result, the Call Report has been expanded from 50 to 60 pages. In addition, the number and frequency of Call Report errors have increased substantially at recent examinations. Since this information is widely used by state and federal regulatory agencies and the general public to monitor the condition of your institution, it is extremely important that the data be accurate and complete. Please contact Deputy Chief Examiner Kerry Morris at kmorris@ofi.louisiana.gov or 225/925-4201 if you have any questions.

FDICconnect – As mentioned previously, our email system may not be secure if your institution is not using Transport-Layer Security (TLS). All confidential information submitted electronically to this Office should be sent through FDICconnect. Regardless of your institution's registration status, go to www.fdic.gov and click the Quick Links for Bankers. On the Quick Links for Bankers page, you should see the link for FDICconnect. Once you click on the link, the FDICconnect Business Center will open and show you a number of links. These links will provide information on using this service, especially if your institution has not yet registered.

If your institution is already registered, the system should allow designated employees to log in, establish a session to exchange information, and select the parties to whom you would like to send the information. At the present time, this Office has a number of employees that are registered users of FDICconnect -- simply select the appropriate party to send the information. If you have any questions, please contact Review Examiner Tim Robichaux at 225/922-0878 or by email at trobichaux@ofi.louisiana.gov.

Subscribe to Receive Regulatory Alerts Automatically – As mentioned previously, you may register your email address to subscribe for regular notifications of regulatory alerts at the following websites:

FDIC -- https://service.govdelivery.com/service/multi_subscribe.html?code=USFDIC

FRB -- <http://www.federalreserve.gov/generalinfo/subscribe/notification.htm>

Information on the Conference of State Bank Supervisors' (CSBS) Website – As mentioned in previous updates, you are again encouraged to periodically check out the CSBS website. Their weekly newsletter contains a great deal of useful information and will update you on the current matters affecting the state banking system. The direct link to the current newsletter is located at <http://www.csbs.org/Content/NavigationMenu/PublicRelations/CSBSExaminer/ExaminerMain.htm>.

Their homepage, <http://www.csbs.org>, contains numerous helpful links. Please contact Deputy Chief Examiner Kerry Morris at 225/925-4201 or by email at kmorris@ofi.louisiana.gov with questions about CSBS' website or for help accessing the information.

Closing Comments – On 1-1-10, the following institutions will be celebrating 100 year anniversaries: Bank of Erath, Erath, Louisiana; MBL Bank, Minden, Louisiana; and Mutual Savings and Loan Association, Metairie, Louisiana. With the addition of these institutions, 48 of 158 banks/thrifts domiciled in the State of Louisiana have been in existence for 100 years or more. We extend our heartfelt congratulations and best wishes to Management and the Boards of Directors of these institutions and hope they will continue to grow and prosper in the future. Again, we are always looking for recommendations to improve the manner in which we conduct examinations and better serve our constituents. If you have noticed an area which needs improvement, please let me know. We truly want to be a resource to you and your institution. You can call me directly at 225-925-4675, or email sseymour@ofi.louisiana.gov.

Happy New Year!